



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
CUMBERLAND COUNTY  
SHERIFF'S SETTLEMENT – 1998 TAXES**

**June 29, 1999**

**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX  
FRANKFORT, KY 40601  
TELE. (502) 564-5841  
FAX (502) 564-2912**



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Donna Thurman Knight, Cumberland County Judge/Executive

Honorable James Pruitt, Cumberland County Sheriff

Members of the Cumberland County Fiscal Court

The enclosed report prepared by Donna Bouvier, Certified Public Accountant, presents the Cumberland County Sheriff's Settlement – 1998 Taxes.

We engaged Donna Bouvier, CPA, to perform the financial audit of this statement. We worked closely with the firm during our report review process; the resulting audit comports with our reporting format. As part of the audit, Donna Bouvier, CPA, evaluated the Cumberland County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Enclosure

AUDIT REPORT OF  
CUMBERLAND COUNTY  
SHERIFF'S SETTLEMENT-1998 TAXES

June 29, 1999

## CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT-1998 TAXES	3
NOTES TO FINANCIAL STATEMENT	5
COMMENT AND RECOMMENDATION	7
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	8

To the People of Kentucky  
Honorable Paul Patton, Governor  
John P. McCarty, Secretary  
Finance and Administration Cabinet  
Mike Haydon, Secretary, Revenue Cabinet  
Honorable Donna Thurman Knight, County Judge/Executive  
Honorable James Pruitt, Sheriff  
Members of the Cumberland County Fiscal Court

Independent Auditor's Report

I have audited the Cumberland County Sheriff's Settlement - 1998 Taxes as of June 29, 1999. This tax settlement is the responsibility of the Cumberland County Sheriff. My responsibility is to express an opinion on this financial statement based on my audit.

I conducted my audit in accordance with generally accepted government auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

The Sheriff prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In my opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Cumberland County Sheriff's taxes charged, credited, and paid as of June 29, 1999, in conformity with the basis of accounting described in the preceding paragraph.

To the People of Kentucky  
Honorable Paul Patton, Governor  
John P. McCarty, Secretary  
Finance and Administration Cabinet  
Mike Haydon, Secretary, Revenue Cabinet  
Honorable Donna Thurman Knight, County Judge/Executive  
Honorable James Pruitt, Sheriff  
Members of the Cumberland County Fiscal Court  
(Continued)

Based on the results of my audit, I present a comment and recommendation, included herein, which discusses the following area of noncompliance:

- The Sheriff Should Have Required Depository Institutions To Pledge Additional Securities Of \$306,788 As Collateral And Entered Into A Written Agreement To Protect Deposits.

In accordance with Government Auditing Standards, I have also issued a report dated December 7, 1999, on my consideration of the Cumberland County Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Donna Bouvier  
Certified Public Accountant

December 7, 1999

- 2 -  
CUMBERLAND COUNTY  
JAMES PRUITT, SHERIFF  
SHERIFF'S SETTLEMENT - 1998 TAXES

June 29, 1999

**Error! Not a valid link.**

\* and \*\* See Page 4

- 3 -

CUMBERLAND COUNTY  
JAMES PRUITT, SHERIFF  
SHERIFF'S SETTLEMENT - 1998 TAXES  
June 29, 1999  
(Continued)

**Error! Not a valid link.**

\* Commissions  
    10% on \$ 10,000  
    4.25% on \$470,981  
    4% on \$414,970

** Special Taxing Districts:	
Library District	\$ 6
Health District	3
Extension District	23
Soil Conservation District	5
Ambulance District	<u>6</u>
 Balance Due Districts	 \$43
	==

The accompanying notes are an integral part of the financial statement.

- 4 -

NOTES TO FINANCIAL STATEMENT

CUMBERLAND COUNTY  
NOTES TO FINANCIAL STATEMENT

June 29, 1999

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, Kentucky Revised Statute 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CUMBERLAND COUNTY  
NOTES TO FINANCIAL STATEMENT  
SHERIFF'S SETTLEMENT - 1998 TAXES  
June 29, 1999  
(Continued)

NOTE 2: DEPOSITS

The Sheriff maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of December 2, 1998, the uncollateralized amount on deposit was \$306,788. The pledged securities and FDIC insurance did not equal or exceed the amount on deposit. In addition, the Sheriff did not have a written agreement with the depository institution.

NOTE 3: PROPERTY TAXES

The real and personal property tax assessments were levied as of January 1, 1998. Property taxes were billed to finance governmental services for the year ended June 30, 1999. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 1, 1998, through April 30, 1999.

NOTE 4: INTEREST INCOME

The Cumberland County Sheriff earned \$1,601 as interest income on 1998 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

- 6 -  
CUMBERLAND COUNTY  
JAMES PRUITT, SHERIFF  
COMMENT AND RECOMMENDATION

June 29, 1999

STATE LAWS AND REGULATIONS:

1. The Sheriff Should Have Required Depository Institutions To Pledge Additional Securities Of \$306,788 As Collateral And Entered Into a Written Agreement To Protect Deposits.

The Sheriff's deposits were not adequately secured by \$306,788 as of December 2, 1998. Under provisions of KRS 66.480(1)(d) and KRS 41.240(4), banks are required to provide pledges of securities for interest-bearing and noninterest-bearing deposits if either exceeds the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation. The Sheriff should require the depository institution to pledge sufficient securities as collateral to secure deposits at all times. I also recommend the Sheriff enter into a written agreement with the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. According to federal law, 12 U.S.C.A §1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Management's Response:

The Sheriff obtained a written agreement at completion of audit on December 7, 1999.

PRIOR YEAR

In the prior year we reported that the Sheriff did not have a written security agreement to protect deposits. Even though a written agreement was obtained at completion of fieldwork date, December 7, 1999, the written agreement was not in effect during the collection of the 1998 taxes.

- 7 -

REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Donna Thurman Knight, County Judge/Executive  
Honorable James Pruitt, Cumberland County Sheriff  
Members of the Cumberland County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

I have audited the Cumberland County Sheriff's Settlement - 1998 Taxes as of June 29, 1999, and have issued my report thereon dated December 7, 1999. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Cumberland County Sheriff's Settlement -1998 Taxes as of June 29, 1999, is free of material misstatement, I performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying schedule of comment and recommendation as item #1.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Cumberland County Sheriff's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statement and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk

that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

- 8 -

Honorable Donna Thurman Knight, County Judge/Executive  
Honorable James Pruitt, Cumberland County Sheriff  
Members of the Cumberland County Fiscal Court  
Report On Compliance And On Internal Control Over  
Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

Donna Bouvier  
Certified Public Accountant

December 7, 1999

